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CORPORATE BENEFITS AS A COMPETITIVE TOOL IN JAPAN

Summary

Compensation packages enable firms to compete for the best employees; they, in turn, are expected to boost corporate efficiency and, thereby, profits. Since benefits in Japan appear more easily adjusted than standardized pay scales, they allow a degree of flexibility in remunerating employees. The government, too, has a hand in the compensation process through its ability to mandate benefits as well as design tax policies that either encourage or discourage various options.

In the past Japanese companies have favored compensation arrangements with a strong financial component. The current labor shortage has the potential to tilt employee compensation packages toward time-related benefits or other nonwage-related remuneration. Cultural and social welfare expectations play a role in the design of benefit packages, a factor that may hit foreign firms operating in Japan doubly hard as they compete for the best Japanese employees.

Overview

Mandated benefits in both Japan and the United States make up about 8 to 9 percent of average personnel costs (see Tables 1 and 2). A major difference, however, is that in Japan more benefit programs are provided. In addition to the social security, unemployment and workers' compensation insurance required by law in the United States, Japanese personnel costs reflect charges for mandated health insurance, preschool child support and handicapped employment. This is perhaps the most striking dissimilarity between benefit packages in the two countries.

Many of the voluntary offerings that companies use to lure and keep valued talents are familiar to both nations. Also similar is the tendency and ability of the largest firms to have the most variety. As seen in Table 1, the biggest Japanese firms provide slightly more of total compensation in noncash remuneration than do small enterprises. (This holds true in the United States, too.) Noncash compensation, such as insurance and payments-in-kind, may indicate only a portion of a firm's benefit package. This amount may range from 28 percent in public utility companies employing 5,000 or more workers to 11 percent in electric machinery businesses with less than 100 employees.

Adding to the difficulty of assessing benefits, however, is deciding what ranks as a benefit. Many areas of compensation in Japan come as cash supplements to the paycheck. Although these will be discussed later, they include payments for commuting, dependents, regional "hardship" and a variety of additions to "cash" earnings that do not equate with what Americans view as wages or salary. These supplements, which are distinct from bonuses and merit pay, tend to emphasize a notion of corporate (and, to a degree, government) social support.

Benefits Packages, Mandated and Voluntary

Mandated Benefits - The government provides several social welfare types of programs with the help of companies (see Table 3). Among the services requiring joint employee-employer contributions are those for health, retirement and workers' compensation insurance. Larger firms that have their own employee health insurance fund can negotiate lower employee contributions as part of the benefit package. For medium and small-sized firms the employer and the employee usually each contribute 4.2 percent (on wages up to Y710,000 or $5,259 a month at Y135=$1.00) for health insurance.

Contributions to the employee-designated social security program (as opposed to the flat-rate payments to the national program ensuring a basic social security component) currently run 7.15 percent (6.9 percent for women) from both employer and employee on wages of up to Y530,000 ($3,926) a month. (For more information on Japan's health and social security programs, see JEI Reports No. 16A, April 21, 1989, and No. 21A, May 25, 1990.) These rates are scheduled to increase for both sexes to 7.25 percent by 1994.

For unemployment insurance an employee's pay is taxed at a rate of 0.55 percent; the employer's payroll is taxed at a 0.9 percent rate.[1] The insurance provides laid-off workers with income assistance for between 90 days and a maximum of 300 days, depending on their previous length of employment and age when laid off.

Only the company is required to make contributions for workers' compensation and another category called child allowance. The charges for workers'

[1]Michael B. Zuzik, "Statutory Benefits in Japan" (Washington, D.C.: Wyatt Co., unpublished report), September 1990.

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Table 1: Average Monthly Cost per Regular Employee by Industry and Type of Payment in Japan, 1988

Industry	Total	Cash Earnings	Payments in Kind	Severance Costs	Mandated Benefits	Voluntary Benefits	Education Costs	Recruitment Costs	Other* Costs
Average of Surveyed	Y398,115	Y333,638	Y1,870	Y16,534	Y31,330	Y11,048	Y1,521	Y1,170	Y1,004
Construction									
5,000+ Workers	662,355	529,032	17,006	34,831	54,964	21,871	3,211	354	1,087
1,000-4,999	538,721	450,163	4,540	18,893	50,379	10,803	2,065	745	1,134
300-999	455,007	382,756	1,220	13,589	41,667	11,674	1,604	1,312	1,184
100-299	352,550	300,595	339	8,341	31,466	8,526	1,629	885	770
30-99	324,741	276,136	394	3,864	32,665	9,188	1,021	758	716
Finance and Insurance									
5,000+ Workers	658,835	534,166	6,601	40,230	41,874	26,705	3,134	2,889	3,236
1,000-4,999	499,122	423,266	2,293	21,959	33,448	12,076	2,258	1,530	2,292
300-999	459,984	387,746	3,661	16,964	33,591	11,835	2,806	1,667	1,714
100-299	466,342	391,490	2,816	13,526	33,746	15,371	2,640	5,649	1,104
30-99	499,989	424,084	5,639	18,815	38,055	9,369	1,734	1,571	723
Utilities									
5,000+ Workers	643,201	463,233	5,761	84,744	45,557	31,419	9,205	196	3,085
1,000-4,999	635,178	497,556	2,243	46,088	42,866	30,750	10,371	914	4,391
300-999	524,038	427,340	5,375	33,252	39,382	12,656	3,847	317	1,867
100-299	503,085	424,981	2,241	15,381	37,761	18,461	2,522	214	1,524
30-99	438,625	363,739	377	15,486	35,693	20,519	1,491	194	1,127
Manufacturing									
5,000+ Workers	514,809	415,624	2,807	30,430	39,221	21,637	2,958	829	1,302
1,000-4,999	453,338	378,522	2,814	21,070	34,455	12,587	1,584	1,022	1,285
300-999	380,001	323,255	1,367	14,104	30,155	7,884	1,322	1,081	834
100-299	309,435	267,196	995	8,362	25,387	5,540	704	809	442
30-99	289,748	249,964	649	7,218	25,007	5,364	453	673	420
Petroleum and Coal									
5,000+ Workers	534,792	415,579	932	25,942	39,298	45,583	2,530	1,580	3,347
1,000-4,999	696,605	543,620	8,651	43,773	47,643	48,495	2,042	441	1,940
300-999	563,495	460,348	2,462	22,564	43,644	29,638	2,331	463	2,046
100-299	490,400	407,478	1,987	28,491	34,901	15,390	1,113	229	810
30-99	400,738	345,535	550	13,963	31,546	5,309	751	1,926	1,158
Plastic Products									
5,000+ Workers	636,416	518,556	11,408	27,343	46,657	32,452	--	--	--
1,000-4,999	459,039	381,935	4,876	20,300	37,808	11,010	1,702	488	920
300-999	362,091	312,898	1,066	7,879	29,713	7,577	1,066	907	984
100-299	308,245	268,493	1,057	6,108	24,630	5,860	720	1,024	353
30-99	299,443	260,580	787	4,809	24,980	5,441	533	1,622	691
Steel									
5,000+ Workers	610,558	446,895	1,632	78,684	47,437	31,521	2,078	218	2,092
1,000-4,999	483,405	398,169	2,208	28,590	39,004	12,402	1,404	534	1,093
Publishing									
5,000+ Workers	501,728	414,344	2,211	20,689	38,242	10,827	2,954	10,639	1,821
1,000-4,999	639,159	537,479	4,666	37,868	45,925	10,199	683	671	1,667

*Includes expenses for work clothing, transfers and in-house communications.

Source: Ministry of Labor, Yearbook of Labor Statistics, 1988.

Table 2: Costs in the United States per Employee per Hour Worked by Sector, 1989

(in dollars and percent)

	Wages/ Salaries	All Benefits	Paid Leave				Supplemental Pay			Insurance	Pensions/Savings		Mandated Benefits			
			Vacation	Holiday	Sick	Other	Premium Pay	Nonproduction Bonuses	Shift Pay		Pensions	Savings/ Thrift	Social Security	Federal/State Unemployment		Workers' Comp
All Sectors	$10.38	$3.90	$0.50	$0.34	$0.12	$0.04	$0.17	$0.12	$0.05	$0.85	$0.34	$0.08	$0.64	$0.03	$0.11	$0.27
	(72.7%)	(27.3%)	(3.5%)	(2.4%)	(1.1%)		(1.2%)	(0.8%)	(0.3%)	(5.9%)	(2.4%)	(0.6%)	(5.9%)	(0.2%)	(0.8%)	(1.9%)
Goods-Producing*	11.90	5.30	0.62	0.43	0.10	0.04	0.37	0.15	0.08	1.28	0.45	0.12	1.00	0.03	0.16	0.41
	(69.2%)	(30.8%)	(3.6%)	(2.5%)	(0.8%)		(2.2%)	(0.8%)	(0.5%)	(7.4%)	(2.6%)	(0.7%)	(5.8%)	(0.2%)	(0.9%)	(2.4%)
Manufacturing	11.71	5.45	0.68	0.49	0.12	0.04	0.40	0.15	0.10	1.40	0.41	0.13	1.00	0.03	0.15	0.29
	(68.2%)	(31.8%)	(3.9%)	(2.8%)	(1.0%)		(2.3%)	(0.9%)	(0.6%)	(8.1%)	(2.4%)	(0.8%)	(5.9%)	(0.2%)	(0.9%)	(1.7%)
Nonmanufacturing	10.00	3.46	0.45	0.30	0.13	0.04	0.11	0.11	0.03	0.70	0.32	0.07	0.79	0.03	0.10	0.26
	(74.3%)	(25.7%)	(3.3%)	(2.2%)	(1.2%)		(0.8%)	(0.8%)	(0.2%)	(5.2%)	(2.4%)	(0.5%)	(5.9%)	(0.2%)	(0.7%)	(1.9%)
Services**	9.77	3.35	0.45	0.30	0.13	0.04	0.09	0.10	0.03	0.68	0.30	0.06	0.77	0.03	0.09	0.21
	(74.5%)	(25.5%)	(3.4%)	(2.3%)	(1.3%)		(0.7%)	(0.8%)	(0.3%)	(5.2%)	(2.3%)	(0.5%)	(5.9%)	(0.2%)	(0.7%)	(1.6%)

*Includes mining, construction and manufacturing.
**Includes transportation, communications, public utilities, wholesale trade, retail trade, finance, insurance, real estate and services.

Note: Not listed are other benefits, such as severance pay and supplemental unemployment benefits. In 1989 these accounted for 0.02 cents of the total compensation, or 0.1 percent of the total. For goods-producing and manufacturing industries the compensation was about 0.05 of the total package, or 0.3 percent.

Source: Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1990.

Table 3: Average Monthly Cost of Mandated Benefits per Regular Employee by Selected Industry in Japan, 1988

Industry	Total	Health Insurance	Social Security	Employment Insurance	Workers' Compensation	Child Allowance	Handicapped Employment*	Obligatory Compensation
Average of Surveyed	Y31,169	Y10,831	Y14,268	Y2,916	Y2,855	Y215	Y72	Y12
Mining**	53,421	13,605	17,486	3,010	18,981	254	51	34
Utilities	44,802	18,641	19,830	4,139	1,810	303	76	3
Construction**	38,913	11,173	14,358	3,126	9,966	230	49	11
Manufacturing**	31,367	11,157	14,636	2,940	2,332	219	65	16
Steel	43,072	15,544	19,697	3,870	3,587	280	77	18
Petroleum and Coal	42,414	16,397	18,857	4,193	2,564	297	103	2
Nonferrous Metals	37,203	13,302	17,124	3,264	3,192	248	61	13
Chemicals**	37,066	13,450	17,350	3,678	2,168	252	155	13
Transportation Equipment	36,140	12,841	17,038	3,273	2,685	252	45	6
Publishing	35,774	13,016	16,520	3,628	2,293	252	55	10
Finance and Insurance	37,652	14,675	16,359	4,163	2,061	273	117	3
Transportation and Communications**	35,344	11,358	17,079	3,263	3,342	245	41	16

*Employer's payment in lieu of hiring handicapped employees as a payroll average.

**Includes separate payments for coal mining pension contributions or for seamen's insurance. Mining in 1988 had an occupational hazard severity rate of 1.86 figured by the number of working days lost divided by the cumulative hours worked times 1,000. The frequency rate was 5.57, figured as the number of deaths and injuries due to work-related accidents divided by the cumulative hours worked and multiplied by 1 million. The forestry and services industries had higher frequency rates (11.5 and 6.24, respectively) but lower severity rates of 1.29 and 0.26, respectively.

Source: Ministry of Labor, Yearbook of Labor Statistics, 1988.

Table 4: Average Monthly Cost of Voluntary Benefits* per Regular Employee by Selected Industry in Japan, 1988

Industry	Total	Company Housing	Health Services	Canteen Services	Cultural/ Recreation Facilities	Private Insurance Coverage	Workers' Compensation Supplements	Life Passages Benefits	Asset Formation Incentives	Other
Average of Surveyed	Y11,048	Y4,242	Y1,144	Y1,425	Y1,263	Y824	Y262	Y367	Y351	Y1,170
Mining	13,847	6,251	1,124	1,342	2,015	774	536	567	53	1,184
Utilities	30,289	10,442	3,728	2,227	4,660	618	81	505	6,225	1,803
Construction	11,024	3,271	308	1,298	1,106	2,194	1,229	610	140	869
Manufacturing	11,299	4,414	854	1,785	1,284	591	188	370	286	1,526
Steel	21,976	10,789	1,734	2,386	2,506	434	253	800	648	2,427
Petroleum and Coal	40,756	23,723	1,768	3,317	5,148	604	91	783	3,515	1,806
Nonferrous Metals	13,745	5,933	1,307	2,673	1,255	385	384	497	237	1,074
Chemicals	18,120	9,202	1,215	2,283	1,705	952	175	398	393	1,796
Transportation Equipment	13,799	5,510	1,503	2,788	1,282	324	170	521	358	1,343
Publishing	9,307	1,909	568	1,683	1,233	1,553	308	597	103	1,352
Finance and Insurance	19,259	9,690	619	1,284	1,640	2,704	203	397	1,035	1,688
Transportation and Communications	14,404	4,798	4,717	1,500	1,449	331	194	349	50	1,015

*Includes cost of staffing facilities provided for employee benefits (for example, recreation facilities) as well as depreciation and maintenance of the physical structures but excludes interest costs for funds borrowed to provide the facilities.

Source: Ministry of Labor, Yearbook of Labor Statistics, 1988.

compensation benefits range from 0.5 percent of the total payroll to 14.9 percent, depending on the previous three years' accident rate. For example, the equivalent of an estimated 4 percent of the average monthly pay for a miner went toward workers' compensation insurance in 1988, an indication that even those industries hardest hit by accidents are not taxed at the highest possible rate.

The average cost for the child allowance -- a program that underscores the government's use of mandated benefits for welfare concerns -- is 0.09 percent of wages up to Y530,000 ($3,926) a month.[2] The purpose of this payment, according to the Social Insurance Agency, is "to contribute to stabilize the family life as well as to contribute to the healthy growth and quality development of children who will carry on the future society."[3] Payments are made as long as one of at least two dependent children or wards is under the age of five and the family has a taxable income level below a certain amount. For the first eligible child a family receives monthly payments of Y2,500 ($18.52); for any additional qualified children an eligible family receives Y5,000 ($37.04) a month. In 1988 the government figured 3.7 million children qualified. Company contributions underwrite seven-tenths of the allowance, with a national subsidy providing two-tenths and local government the remainder. In the case of self-employed workers the national government pays two-thirds and local government one-third. Public administrative units foot the bill for their own employees.

Other taxes on payroll for a social welfare-type of benefit include a handicapped employment charge and "other obligatory compensations," which may cover one-time court-ordered costs or payments that ultimately benefit employees. In the case of the handicapped obligation, the government requires companies with more than 300 employees to hire persons with disabilities; the quota is 1.6 percent of the work force. Many companies instead choose to pay what amounts to a fine of Y40,000 ($296) a month for each person not hired to fill the quota. (For example, a firm with 500 employees should have eight workers with disabilities on staff. If the firm has only two who qualify the monthly penalty for failure to meet its full quota would be Y240,000 or $1,778.) Companies that achieve or surpass the quota receive subsidies that can be used to improve facilities for persons with disabilities.

Voluntary Benefits - A variety of factors influences take-home pay as a company determines extra payments that may or may not be work-related and that may or may not be strictly termed benefits. To cite just one possibility these outlays may be how a company provides merit recognition in a pay system based primarily on seniority. The most basic determinant of job benefits is, of course, whether a person works as a full-time regular employee, on contract or part-time. Regular employees come under a company "rule of employment." Robert Ballon of Sophia University in Tokyo describes this as essentially equivalent to a collective labor agreement and notes it may be much the same as what is negotiated by a union in cases where one is present.[4]

[2]Ibid.

[3]Social Insurance Agency, Outline of Social Insurance in Japan, 1988 (Tokyo: Japan International Social Security Association, 1989), p. 93.

[4]Robert J. Ballon, Japan's Salary System (Bulletin No. 120) (Tokyo: Sophia University, 1988).

Other workers, primarily those with contracts or part-time employees (an estimated 11 to 12 percent of Japan's current work force of 64 million-plus), have fewer benefits and generally lower wages and less interesting jobs than those given regular employees. These workers actually may put in at least 35 hours a week or possibly the 46 hours required of a regular employee. Since the majority of nonregular workers is female and since nonregular workers may be among the first to be laid off in an economic downturn, some U.S. labor analysts have suggested that women provide a considerable share of Japan's labor force flexibility.[5] Even part-time workers, however, have some benefits. For example, depending on the type of contract, a nonregular worker might have retirement as well as vacation benefits spelled out. Moreover, required contributions to health care and the national social security program mean part-time workers have some basic benefits. An amendment in 1988 to the Labor Standards Act ensures that part-time employees receive at least some paid holidays.

As Tables 1, 4 and 5 indicate, the amount and the type of voluntary benefits vary widely depending on the size of a firm and the industry it is in. The industries listed in Table 1 had the highest monthly cost per regular employee in 1988. As mentioned earlier, companies with more than 5,000 workers generally offer the best compensation packages. Publishers and companies engaged in petroleum and coal refining, however, proved exceptions to this rule in 1988; in these areas firms that employed between 1,000 and 5,000 workers actually had better remuneration schemes than did those with more than 5,000 employees. Big, elite firms, which are capitalized at more than Y1 billion ($7.4 million), make up less than 10 percent of the companies registered in Japan but employ an estimated 25 to 30 percent of the work force.

The difference between what the largest firms provide on average in terms of voluntary benefits for their regular employees and what smaller firms give in the same industry is quite striking, particularly for petroleum and coal refiners, where the bigger firms pay more than nine times what small enterprises offer. Similarly, large plastics manufacturers provide nearly six times the voluntary benefits of their small counterparts. No wonder that potential recruits angle for larger businesses.

The line-up of voluntary benefits that Japanese companies provide covers a broad span. Company housing, which includes rent or mortgage subsidies as well as dormitories for single employees, is a substantial cost for many of the industries with large benefit payments but not for publishing, in which nearly half the work force is female. Although a survey by the Economic Planning Agency late last year indicated that more women are living on their own in apartments than in the past, unmarried women traditionally were expected to live with their parents. If the publishing industry retains its substantial ratio of female workers and more women continue to set up separate housekeeping, more publishers may begin offering increased housing benefits.

Of the other voluntary benefits provided by various industries, life insurance coverage in the construction field is about as attractive a benefit as it is among finance and insurance workers, although most likely for different

[5]Robert Bednarzik and Clinton Shiells, "Labor Market Changes and Adjustments: How Do the U.S. and Japan Compare?," Monthly Labor Review, February 1989, pp. 31-42.

Table 5: Prevalence of Bonuses and Benefits in Japan per Type and Company, 1986

(in percent)

Size of Enterprise	Production-Related Incentives for: Efficiency	Output	Work-Related: Bonus for Managers	Bonus for Specialists	Unusual Duty Differential	Ability Bonus	Attendance Incentive	Commute Benefit	Lifestyle-Related Benefits: Family Benefit	Regional Benefit	Housing Benefit	Other	Other
Total	13.4%	5.6%	81.2%	12.1%	27.8%	40.5%	54.0%	87.8%	74.3%	16.3%	44.5%	27.6%	17.7%
1,000+ Workers	8.1	4.4	79.4	29.1	59.6	35.2	15.9	93.3	90.0	42.5	65.3	55.7	27.9
100-999	13.7	5.3	87.2	17.0	39.3	43.4	48.3	91.2	82.0	27.5	52.3	35.5	22.1
30-99	13.4	5.7	78.9	9.7	22.4	39.6	57.4	86.4	71.1	11.2	40.9	23.7	15.7
As Percentage of Employee's Average Monthly Remuneration													
Total	0.9%		2.6%	0.1%	0.8%	0.4%	0.6%	3.1%	2.9%	0.5%	1.4%	0.5%	0.8%
1,000+ Workers	0.5		2.4	0.1	1.0	0.1	0.2	3.0	3.7	0.6	1.4	0.3	0.6
100-999	1.2		2.8	0.1	0.8	0.5	0.8	3.4	2.5	0.4	1.6	0.6	1.0
30-99	1.5		2.8	0.1	0.5	0.7	1.3	2.7	1.6	0.3	1.3	0.6	1.1

Source: Sangyo Rodo Chosasho (Industry and Labor Research Center), Chingin-Jijo, March 5, 1989.

reasons. Voluntary benefits prevalent at large Japanese firms in general correspond to many of those provided by medium and large U.S. firms (see Table 6). Companies in both countries can be found that offer company-based pension plans, severance pay, educational benefits, in-house infirmaries and subsidized meals.

Interestingly, proponents of a federally required parental leave policy in this country often cite Japanese maternity leave insurance as evidence that the United States is behind most other industrialized countries because it has no such policy. Japanese law provides that health insurance will cover 60 percent of an insured expectant mother's standard monthly remuneration for six weeks before giving birth and a similar amount for eight weeks after delivery, minus whatever her employer might pay. However, a majority of Japanese women quit their jobs after becoming pregnant and place little demand on this part of the insurance system.

Since Japan confronts a labor shortage that the nation's low birthrate is unlikely to relieve, a growing number of firms may respond to economic pressures (and an official recommendation) and hire more women in mainstream jobs (which entail transfers as well as increased promotion opportunities). Thus, more women also may begin to take advantage of this maternity leave provision. One publishing company made headlines in May by adopting a three-year maternity leave policy. Previously, Fukutake Publishing Co., Ltd. estimated that an average of 50 women, almost 10 percent of its female staff, quit each year after marrying or prior to having a child. Rather than losing trained staff, the company chose to encourage employees to return to work within three years. Electronics companies, which also have a high percentage of female workers, implemented more generous maternity leave policies this spring.

A related U.S. push for leave to care for elderly or ill relatives is mirrored in Japan, where one labor research firm has been quoted as saying that one of three workers with elderly relatives at home quit to offer more comprehensive care.[6] An estimated 13.6 percent of Japanese companies employing more than 30 workers now offers leave to workers who want to care for elderly family members. Early in 1989, for example, Kikkoman Corp. extended to one year the six-month leave it has offered since 1978.

Other popular benefits in Japan include some lifestyle-related benefits, such as those for commuting, and culturally determined benefits, termed here as "life passages" payments, which are made to those who marry or for funerals. As shown in Table 5, commuting benefits are widely available, with 93.3 percent of firms with more than 1,000 employees offering some compensation and even 86.4 percent of the 30-person-and-over companies offering such a benefit. In 1988 those employees who took public transportation received an average additional Y8,308 ($61.54) a month for commuting expenses. Fewer companies offered subsidies to those who traveled by car; for those that did the payments were considerably less than for public transport, according to a 1988 report by the Industry and Labor Research Center, an independent group that specializes in labor matters.

6"Some firms allow absences for workers to tend aged," Japan Times, September 28, 1990, p. 3.

Table 6: Employee Benefits in Medium* and Large U.S. Firms, 1988

(percent of employees receiving benefit)

Selected Types of Benefits	Total Participants	Professional/ Managerial	Technical/ Clerical	Production/ Service
Leave				
Paid Vacations	98%	98%	99%	97%
Paid Sick Leave	69	90	90	47
Paid Lunch Time	11	5	6	17
Paid Maternity Leave	2	3	2	2
Paid Paternity Leave	1	2	1	1
Unpaid Maternity Leave	33	37	34	31
Unpaid Paternity Leave	16	19	17	13
Insurance				
Health	90	93	91	88
Noncontributory	51	50	46	53
Hospital and Surgical	88	91	90	86
Mental Health	88	91	90	86
Dental	60	66	62	55
Vision	32	33	33	30
In HMOs	17	20	20	14
Life	92	96	94	89
Noncontributory	80	84	83	77
Accident and Sickness	46	30	36	60
Noncontributory	37	23	29	49
Long-Term Disability	42	63	53	24
Noncontributory	33	50	42	20
Retirement and Savings				
Defined Benefit Pension	63	65	64	61
Earnings-Based	45	61	56	31
Defined Contribution Pension	45	60	55	32
Savings and Thrift	25	37	32	15
Employee Stock Ownership	2	3	3	1
Profit-Sharing	18	20	21	15
Money Purchase Pension	6	8	7	3
Other Job-Related Benefits				
Educational Assistance	70	82	79	59
Employee Discounts	52	53	56	49
In-House Infirmary	35	42	35	31
Severance Pay	42	54	51	30
Relocation Allowance	33	64	28	18
Subsidized Meals	21	28	26	15
Subsidized Commuting	5	7	7	3
Child Care	4	6	6	2
Flexible Benefit Plans	5	7	8	2
Reimbursement Accounts	12	20	17	5

*Private establishments with 100 plus employees in continental United States.

Source: Department of Labor, Employee Benefits in Medium and Large Firms, 1988.

Also prevalent among Japanese companies are family benefits, in which an employee receives extra pay depending on how many dependents he (she) has. In the United States the only help on this score comes from the government in the form of income tax deductions, which Japanese wage earners also receive; American companies that provided dependent-linked pay would be accused of discrimination. In Japan, however, companies such as Nissan Motor Co., Ltd. and Toyota Motor Corp. provide Y17,500 and Y17,000 ($129.63 and $125.93) a month, respectively, for the first dependent. Nissan allows Y4,500 ($33.33) each for the second and third dependents and Y1,000 ($7.41) for four, five and six dependents. Toyota is less generous for two and three dependents (Y3,000 each or $22.22) but has no limit and pays Y2,000 ($14.82) for each dependent beyond three. Some companies specify that the primary dependent must be a spouse; others are nonspecific, according to data from the Industry and Labor Research Center.

Less widespread but still popular are benefits for housing and recompense for job location. The housing component may include a rental subsidy, company support for home-ownership plans or a monthly payment to those whose job requires them to live separately from their families. The latter group of workers often also receive a stipend for visits home. Of the companies that offer such home visits, the Industry and Labor Research Center says, 93 percent of the larger enterprises provide round-trip tickets; 81 percent of the firms with fewer than 300 employees who enjoy such a program also offer round-trip tickets. Jobs in crowded urban areas (Tokyo and Osaka, for example) and in areas that can get extremely hot or cold also can bring compensation, depending on the company. To help employees brave the chill Hokkaido winters, for example, some firms pay the benefit in fuel oil.

Culturally related benefits are those that firms pay to regular employees who are getting married or in whose immediate family a death has occurred. The funeral cash gift is separate from the funeral grant made from insurance system funds when an insured member dies. Also eligible for classification as a culturally related benefit is a marriage consultation service, which all but one of the major corporate (keiretsu) groupings provide.[7]

While a matchmaking service probably is not a major lure to potential hirees, the company that offers above-average wages or salaries, is in a growth-industry and shows an interest in offering benefits that address evolving employee concerns (such as child care) is most likely to have the edge in attracting and keeping the best employees, particularly in Japan's current tight labor market. But with incomes in Japan now among the world's highest, unions and workers there have begun to look especially toward time-related fringe benefits.

Options for Flexibility

Demand for labor in Japan currently outpaces supply by a significant margin, a situation that makes benefit packages all the more key in hiring. Job opening-to-applicant ratios, which stood at 0.65 in 1984 averaged 1.26 in 1989, the highest level since 1973. The ratio was even higher, 3.12, for recent top

[7]Ritsuko Yoshida, "Getting Married the Corporate Way," Japan Quarterly, April-June 1990, pp. 171-175.

male high school or college graduates. Reporting this past summer on a survey of 4,500 Japanese companies, the Economic Planning Agency said 70 percent of the respondents had been unable to fill all their openings. Their response to keeping production steady, they told EPA, was to increase overtime and reduce holidays and vacations rather than hire more part-time workers.[8]

When Japanese companies suggest they will trim holidays and vacations, government officials must feel like Sisyphus. Tokyo has been struggling to get firms to reduce working hours since 1988, partly in response to other nations' concerns about the output of Japanese workers, whose 2,189 hours on the job that year topped by 200 to 500 hours those of their counterparts in other industrialized nations (see JEI Report No. 11A, March 16, 1990). Another reason for promoting more leisure time is to drive up domestic demand through increased consumption. Proposals for increasing time off the job include trimming two hours off the official 46-hour workweek and encouraging companies to give more consecutive days off. This latter idea attempts to offset the concern that corporate and peer pressure keep workers from being absent for too long, even if they have accumulated vacation days. The 1990 white paper from the Labor Ministry noted that on average workers used only 7.2 of the 15.3 paid vacation days granted by their employers in 1988. (The average of 15.3 days of vacation does not include the 14 national holidays for which workers are paid.)

Firms are required to offer a minimum of 10 paid vacation days a year to regular employees who work at least 80 percent of the scheduled work days. This amount increases by one day a year (up to 20 years) as seniority accrues. Analyst Michael Zuzik of Wyatt Co., a personnel research firm, notes, however, "A controversial feature of work time in Japan is the prevalence of voluntary uncompensated overtime performed, particularly in white collar occupations, including the failure of employees to take more than 60 percent of their legally due vacations."[9] Thus, a company's decision to reduce holidays and vacations to cope with the labor shortage has to be weighed in the context of what is legally required and what actually occurs since employees do not have to take all the vacation time provided.

A similar situation exists with overtime. As noted, the government has set 46 hours as the standard workweek and is urging firms to bring that down to 40 hours by 1992. Nonetheless, the "rule of employment" in a company sets the actual work schedule. Thus, while overtime pay legally must begin after 46 hours, that does not necessarily correspond to what a company considers to be overtime; for example, a firm could set the workweek at 44 hours. Neither does it mean that salaried employees will log in their extra hours even though those below the level of section chief are entitled to overtime. (Section chiefs and those in higher positions typically are not paid overtime but instead receive pay supplements that correspond to their position. Sophia University's Ballon notes, "In dire circumstances, when the company reduces overtime pay, it also reduces position allowances."[10]) Therefore, while industrywide overtime

[8]A.E. Cullison, "Japan's Labor Shortage Nears Critical Stage," Journal of Commerce, July 9, 1990, p. 4A.

[9]Zuzik, op. cit., p. 23.

[10]Ballon, op. cit., p. 23.

increased by a small 0.6 percent last year compared with 5.6 percent in 1988, actual overtime remains difficult to assess because of its treatment on a company-by-company basis.

A Labor Ministry survey this past May indicated that fewer hours were being required on the job, however; 60 percent of manufacturers and 64 percent of wholesalers and retailers told MOL that they had reduced work hours. This does not mean necessarily that they cut back to 46 hours a week. An early October news report noted that only 56.8 percent of the companies surveyed by MOL limited their workweek to this number as of June and, conversely, that more than two-fifths of the respondents still were requiring overtime. Moreover, data compiled by the Statistics Bureau for July indicate that the average male worker spent 50.4 hours a week on the job and women worked a 39.3-hour week for a combined figure of 45.8.

In describing Japanese corporate attitudes toward overtime, Mr. Ballon of Sophia University has said, "The first measure taken by a company getting into difficulties is to cut overtime pay, not necessarily overtime itself." This is possible since firms can, and often do, set their overtime pay rate higher than the required 25 percent premium. Mr. Ballon noted that firms often use a portion of the increase negotiated during shunto (spring wage offensive) to boost their rate of overtime pay. According to his research, overtime pay typically has added an extra 10 percent a month to a worker's earnings in the postwar period.[11] By adjusting overtime premiums companies can gain wide latitude in coping with labor shortages. Hiring new employees adds far more to personnel costs than paying existing workers an additional 25 percent or more of their hourly pay.

What the increased demand on workers does not take into account, however, are employee stress and the offset to productivity. A summer survey by the Labor Ministry touted Nichia Chemical Co., Ltd. of Tokushima prefecture as a model firm in which longer vacations improved worker efficiency. The firm, which offers 20 consecutive days off to employees in the summer, said that since its program began six years ago productivity is higher than ever.

This example would seem to suggest that the business community and the government have a common interest in expanding the number of paid vacation days. Although the costs may be high for companies in terms of paying wages or salaries and benefits for days not worked, advantages come in having a major recruiting tool in today's tight labor market and the prospect of higher productivity by new and existing employees alike. But, depending on how leave is structured, companies risk cementing a benefit into their compensation packages that could prove costly when the economy softens and the number of workers looking for jobs tops the number of openings. For that reason alone, cash-oriented compensation packages remain a popular option in corporate Japan. More time off in a culture where the salaryman's identity often stems from that of his employer (he's a "Mitsubishi" man, for example) suggests that the business world's responses to changing labor situations could loosen the company ties that some analysts have suggested are partly responsible for Japanese corporate success.

[11]Ballon, op. cit., p. 22 and p. 39.

Multinational Firms and the Company as Family

Popular studies point to the paternalistic nature of Japanese corporations under whose mantle employees expect to work in a variety of positions throughout their employment lifetime without fear of layoffs. The corporation's well-being translates into healthy returns to workers in the form of wages or salaries, bonuses and/or benefits. The Japanese company-as-family approach has been credited with the country's low turnover rate and the Japanese worker's acceptance of transfers, benefit reductions and unexpected job assignments when his (her) employer is caught in an economic downturn and tries to adjust by reassignments or diversification rather than layoffs. Foreign-based corporations operating in Japan have assailed this attitude for complicating their ability to hire top-notch personnel since these potential employees worry that a nondomestic company will not be as committed as a domestic firm would be to retaining staff.

Adding to the problems of foreign-based firms in Japan is the necessity, at least in the case of U.S. firms, of conforming to laws in their home countries as well as to Japanese laws. Thus, headquarters could be expected to nix any benefit packages that would be considered discriminatory at home. Extra compensation for dependents, for example, would violate the equal-pay-for-equal-work standard in the United States. Yet this is a popular benefit in Japan.

In both countries, however, tax policy appears to favor companies giving -- and employees taking -- benefits in noncash form, particularly in the case of pension contributions in Japan. Tax-qualified pension plans in that country allow employers to contribute money to privately operated pension funds for the benefit of their employees; these funds are taxed at a low rate (see JEI Report No. 21A, May 25, 1990). Also, very small companies can get a limited tax deduction for money they claim will be available for pension payouts; while listed as such for accounting purposes, the company can continue to use these funds until an employee retires.

At An Advantage Internationally?

As a competitive tool compensation packages -- inclusive of wages and salaries, bonuses and benefits -- primarily work within a country to help firms attract the best employees. Benefit programs also address a variety of health and welfare issues important to workers. Moreover, they can improve morale, thus boosting productivity. But compensation packages also have an international competitive angle for countries like Japan and the United States that are major exporters since they shape an important component of total production costs.

In economic growth periods benefits flourish in both Japan and the United States as an attractive way to compensate employees. What concerns some analysts, however, is whether an economic slowdown, which often results in layoffs or furloughs in the United States and thus reduced personnel expenses, could corner Japanese companies into continued high personnel costs since these firms are reluctant to lay off or furlough regular employees except as a last resort.

Given this aversion and the low percentage of part-time and contract workers in the work force -- the people most likely to be laid off, Japanese

employers usually turn to benefits for the flexibility they need to weather economic storms. Although changes can be made in basic wages and salaries as well as bonuses if employee representatives agree to revise a company's "rule of employment," job-related pay differentials and fringe benefits are the most likely candidates for cutbacks in hard times. Since the company-as-family philosophy encourages employees to view the firm's welfare as synonymous with their own, corporate survival is a good incentive for allowing changes.

If such changes were to be made over the near term, basic seniority-based pay scales, which make up about 70 percent of an average employee's wages or salary, most likely would remain largely intact. Thus, a typical 39-year-old male worker who receives Y264,400 ($1,958.52) a month in scheduled pay could expect similar income in the event of an economic downturn. The extra Y31,700 ($234.81) a month in merit or special allowances he usually receives might be trimmed, however. Semiannual bonuses or other additions figured on a yearly basis, which amount to Y997,800 ($7,391.11) for the 39-year-old salaryman, are among the first candidates for curtailment. With cutbacks in nonscheduled pay, this worker would earn Y3,172,800 ($23,502) a year. While an American counterpart might face a layoff, a regular Japanese worker not only would retain his or her job but still would have company-supported health and social security insurance.

At home, Japanese firms are on an equal footing as far as mandated benefit payments are concerned. This, in itself, is a major advantage vis-a-vis their international competitors, which, in the United States at least, try to attract the highest-quality labor force with various health plans and end up paying ever higher premiums as annual health costs rise at double-digit rates.

This Japanese advantage, however, could change quickly, depending on how fast Tokyo hikes the premiums for mandated benefits. Currently, the government plans by the year 2025 to boost employer-employee social security premiums to 28.9 percent of wages, although the wage ceiling, if any, has not been set. Government social security analysts have warned that even higher premiums might be needed since the rapid aging of the Japanese population has raised the likelihood that in 50 years there will be only three workers supporting every senior citizen instead of the current six-to-one ratio (see JEI Report No. 21A, May 25, 1990). Health-care costs, too, could begin climbing faster than their current annual rate of about 4 percent (see JEI Report No. 32B, August 17, 1990), thus driving up mandated premiums.

Fast-rising outlays for mandated benefits do not yield commensurate returns to employers. Competitors in countries without such mandated programs have the option of dropping coverage altogether, thereby pushing the government to step in, or shifting more of the cost onto their employees. If the United States is any example, the result may be widespread dissatisfaction with a system that covers only a part of the population and as a result is blamed for contributing to a worsening in health care and a run-up in its cost.

Although companies in Japan have only limited leeway at present to adjust the pay on which mandated benefits are based, they have far more control over expenditures for voluntary benefits. Given that a company's survival is important to its employees, strong hints of trouble from an employer may be all that is necessary for a worker to ignore offered vacation time, put in overtime

without compensation or swallow a protest if bonuses are not forthcoming. Government monitoring of these areas could prevent abuses, although this depends in part on employee cooperation. In some cases, however, companies now go beyond meeting government standards or requirements (as in their rates of overtime pay) and have leeway to cut back without government censure.

What is less clear is whether the current competition for labor in Japan will drive companies to offer a plateau of benefits from which they would have difficulty retreating in an economic downturn. Although manufacturers in particular hope greater efficiency, including more automation, will offset the shrinking labor pool, high-quality employees will continue to be lured, and retained, by top-of-the-line benefit packages. A growing economy remains a Japanese worker's best insurance for a continuation of good benefits and no layoffs. While foreign competitors might hope that expanding compensation programs will lock Japanese firms into meeting higher personnel costs even in an economic crunch, the flexibility that the government and employees themselves provide companies in Japan means that adjustments most likely will continue to come in the form of reduced voluntary benefits rather than layoffs.

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The view expressed in this report are those of the author and do not not necessarily represent those of the Japan Economic Institute.